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S E C R E T SECTION 01 OF 03 GUATEMALA 002050

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SUBJECT: CHINESE ACTIVITIES IN GUATEMALA

REF: A. SECSTATE 138041  
[B](#). GUATEMALA 01959

Classified By: EconOff Tom Palaia for reasons 1.5 (d).

[1](#)1. (S) Summary: Guatemala does not maintain substantial public or private sector ties with PRC China. Taiwanese influence in political and military affairs effectively blocks Chinese access. That influence has been maintained through direct assistance and bribes to government officials and is supported by a general ideological affinity. China has recently renewed offers of expanded assistance and trade opportunities in exchange for political recognition. However, as with past attempts, Taiwan has bettered these offers and again closed the door on China. China is not a major trading partner and its influence on the Guatemalan economy is limited to secondary effects stemming from international market phenomena. Any future attempts to expand Chinese influence would likely be driven by Chinese international political considerations rather than economic interests. End summary.

#### Trade and Investment

[1](#)2. (C) Talk of opening a Guatemalan trade office in China comes and goes. Rumors flared up again over the last few months culminating in a June 2005 trade mission to China, led by Minister of Economy Marcio Cuevas. During the visit, Chinese officials offered to increase purchases of Guatemalan sugar and coffee, provide assistance with building roads, and invest in Guatemala's energy sector, in exchange for Guatemalan recognition of China and an abandonment of formal ties with Taiwan. Press reports of Taiwanese concerns following this trip led to GOG clarifications that their interest was limited to opening an office in China to facilitate trade, with no consideration of formal diplomatic relations. GOG interest and press attention to a potential Chinese trade deal have since withered following President Berger's successful August 2005 trip to Taiwan, where he secured commitments to increase assistance on key infrastructure projects and initialed a quickly negotiated free trade agreement. There has been private speculation that the recent trade mission and talk of increasing economic ties with China were construed to strengthen Guatemala's hand in requesting increased trade and official assistance from the Taiwanese as well as cooperation in a bribery case involving the Taiwanese and former President Portillo (Para 7).

[1](#)3. (SBU) Trade with mainland China represents less than 4 percent of overall Guatemalan trade and is not substantially influenced by preferential trade schemes or Chinese investments. Exports to China are almost exclusively sugar while imports consist of a range of manufactured goods, almost two-thirds of which are actually purchased from third country suppliers. Hong Kong trade is measured separately from mainland China in Guatemalan statistics and makes up significantly less than 1 percent of total trade, about half of which involved Hong Kong only as intermediary for third country suppliers. There has been no substantial direct investment by private or public Chinese interests. Directors of the Guatemalan family-owned Multi Inversiones "Pollo Campero" company have told EconOff that they are in preliminary stages of exploring potential expansion of their restaurant chain and chicken distribution into China. However, the conservative family admits their discomfort with mainland China politics and complains of how complicated the Chinese market is to enter.

#### [1](#)4. (U) Central Bank Trade Statistics

Exports from Guatemala to mainland China (USD):  
19.3 million representing 0.7 percent of total exports  
Composition: 94 percent sugar

Total Imports originating in mainland China (USD):  
345 million representing 4.8 percent of total imports (of which approximately 124 million or 36 percent is bought directly from China with the remaining 64 percent purchased from third country suppliers)

Composition of principal imports of Chinese made goods:



Mechanical machines and appliances - 10 percent  
Vehicles - 9.6 percent  
Apparel - 8.7 percent  
Footwear - 8.2 percent  
Games - 7.2 percent  
Various manufactured goods - 5.7 percent

Hong Kong activity is separately measured by the Central Bank:  
Exports from Guatemala to Hong Kong (USD):  
0.8 million representing 0.03 percent of total exports  
Composition: 94 percent fruit

Imports from Hong Kong (USD):  
53.3 million representing 0.7 percent of total imports (of  
which approximately 50 percent are produced in Hong Kong, the  
remaining half is produced elsewhere and purchased from Hong  
Kong suppliers)

Composition of principal imports:  
Games - 18 percent  
Mechanical machines and appliances - 9.4 percent  
Plastic materials - 7.4 percent  
Various manufactured goods - 6.6 percent

15. (C) Chinese economic activity is not sufficiently important, nor in such sensitive areas as to have a major impact on domestic cultural, economic, environmental or political conditions. Press coverage and general talk of the impact of Chinese growth on the Guatemalan economy, following the lead of international news coverage, has mainly focused on the effects of growing Chinese competition in the textile and apparel markets and inflationary pressures on raw materials thanks to China's booming demand. CAFTA has been seen as the counterweight to Chinese competition in the textile and apparel sectors. As for Chinese resource demand driving up local prices, coverage is sporadic and some officials privately acknowledge this is just a foreign boogeyman on which to blame domestic economic problems.

#### Political Overtures - Taiwanese Exclude Chinese Access -----

16. (S) Taiwan has successfully restricted Chinese political access and influence in Guatemala (REF B). Taiwanese officials are active and enjoy broad access to the GOG, while Chinese activity is extremely limited. Legitimate assistance programs and alleged bribes to Guatemalan officials ensure continued diplomatic recognition of Taiwan. The Berger government is committed to a strong relationship with Taiwan, a commitment generally shared by segments of the population interested enough to have an opinion on an otherwise uninteresting topic here. Guatemalan elite are also notoriously conservative and suspicious of overactive governments. In particular, the business community admires Taiwan's development path and is suspicious of China's controlling government. A limited free trade agreement was recently signed with Taiwan while on-again-off-again public speculation about increasing economic ties with China have again fallen from view.

17. (C) Copies of several checks publicly resurfaced recently causing a wrinkle in the otherwise cozy relationship with Taiwan. Former President Alfonso Portillo received at least three checks from the Taiwanese Embassy for USD 500 thousand each, while his notoriously corrupt Private Secretary may have received others. Copies of several of these checks, including one cashed in the US several weeks before Portillo assumed the Presidency have been available to authorities for several years. Recent press coverage reflected negatively on Taiwan for its role in the scandal but has since died down. For a variety of reasons (Ref B), it is unlikely that this scandal will have any long-term implications on the GOG-Taiwan relationship. The government of Taiwan, which insists the checks were "donations" for a book program, has dodged requests from Guatemalan prosecutors for cooperation to pursue corruption charges against Portillo.

#### Cultural/Educational Activities -----

18. (C) The Chinese government is not involved in any visible cultural or educational activities. Their lack of access within the GOG and the Guatemalan cultural elite would make any such overtures difficult, particularly in light of continuing Taiwanese assistance in these areas.

#### Military Activity and Weapons Sales -----

19. (C) Neither the Chinese government nor military have been involved in direct weapons sales to any GOG security forces. However, private gun dealers acknowledge occasionally looking to China for supplies, in light of difficult US licensing processes and competitive Chinese pricing. However, they complain of quality, consistency and speed to market difficulties in buying from Chinese suppliers.



¶10. (C) Post is not aware of any military to military contact with Chinese officials. The Taiwanese attache maintains excellent contacts within the Guatemalan military community and actively fosters that relationship to the exclusion of contact with Chinese counterparts (REF B).

#### Unofficial Chinese Activity - People Smuggling

¶11. (C) Chinese alien smugglers use Guatemala as a transit point en route to the US. Post's best intelligence suggests that Chinese organized crime uses intermediaries from Guatemala or elsewhere in Latin America and is not locally established. However, higher-end smuggling via air has implicated Guatemalan immigration and foreign affairs personnel in Guatemalan visa fraud. Evidence also suggests that money is occasionally laundered directly from China into Guatemala to support smuggling activity and pay these intermediaries. Guatemalan law enforcement lacks the tools to adequately track this smuggling to determine the extent of involvement of Chinese organized crime in alien smuggling. Officials are reluctant to attempt investigative coordination with their Chinese counterparts due to a lack of trust and understanding in addition to their lack of capacity for large-scale international investigations. There are no formal or informal mechanisms for sharing information with Chinese law enforcement.

#### Comment

¶12. (C) The Chinese government, as evidenced by the July trade mission, makes occasional attempts to establish itself in Guatemala and steal formal recognition away from the Taiwanese. So long as Taiwan maintains its aggressive courtship of Guatemala and Central America, it is unlikely the Chinese will be successful. Guatemala has not been an attractive place for foreign direct investment from anywhere and China is certainly no exception. Guatemala is not a major commodity producer and is unlikely to attract serious Chinese attention as an economic partner. China's future influence here depends more on the value it places on Guatemalan political recognition and its level of aggressiveness in challenging the Taiwanese for influence in Central America.

WHARTON